

# Assembly Bill 512 (Lieber and Coto)

## Mortgage Consumer Education

### Background

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Mortgage loans are increasingly being marketed, solicited, explained, and negotiated in languages other than English. Yet the final contract signed by buyers is only in English. Negotiations are cemented at the closing table with a huge stack of English-only documents that borrowers do not understand, often including different terms than what borrowers were promised, and sometimes accompanied by pressure from brokers and loan officers for borrowers to stop asking questions and just sign.

At best, this means many consumers may not understand the terms of the obligations they sign. At worst, unscrupulous lenders and brokers take advantage of borrowers who are not fluent in English. Loan defaults and property foreclosures are the unfortunate and increasingly common result. AB 512 seeks to address this issue.

This issue is taking place against the larger economic background of the faltering housing market.

For the past few years, loan products have been designed to allow initial periods of very low payments followed by adjustment. The use of adjustable rate loans, even “teaser” loans with a very low introductory interest rate, often obtained with little or no money down, may have been a reasonable decision for a *sophisticated* borrower. Residences could be purchased and mortgages kept up with small down payments and low monthly payments.

So-called “sub-prime” loans, which provide credit to borrowers who have flawed credit records, have also proliferated. “Stated income” and “no income verification” loans, with their obvious potential for fraud, have

also been far more readily available than in the past. In markets with low affordability, including most of California, these products were effective in allowing many segments of the population to gain entry into the real estate market.

The recent history of the housing market shows the risks associated with these types of loans. Trillions of dollars of adjustable-rate mortgages will have their payments reset in 2008, or have been reset already. The impact of mortgage payment reset will affect California’s housing market and economy as a whole for years to come.

AB 512 adds consumer real estate mortgage loans to the list of contracts subject to the translation requirements of CA Civil Code Section 1632. It requires the consumer to be provided with a summary term disclosure sheet in the language of the negotiation.

### Existing Law

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Current California law does not require mortgage lenders to include translations of contract documents if a real estate loan is negotiated in a foreign language.

Current California law, starting in 1974 and as amended, does require any business that primarily negotiates many other common consumer contracts, such as auto loans, in any of five specified languages (Spanish, Chinese, Tagalog, Vietnamese, and Korean) to provide the consumer with a translation of the contract. CA Civil Code Sec. 1632.

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## **Summary**

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AB 512 amends California Civil Code Section 1632. It adds to its terms loans secured by residential real property. It requires that, beginning in April, 2009, consumers be given a translation of specified loan terms on forms developed for that purpose by the Secretary of the Business, Transportation and Housing Agency.

The bill is intended to provide an easy way for limited-English speakers to be informed of the essential terms of their mortgage transactions. The key to making this work is the development of a clear and easily-understandable, plain-language form that will provide limited-English speakers with the most important terms and protections of their mortgages. The June 10 version of the bill provides for administration to modify DRE Forms 883 and 885 (to remove provisions that do not apply to brokers) and provide translated forms for lenders to use. These forms are already translated and required for broker-originated mortgages and would simply require the same degree of translated disclosures for retail lenders as is currently required for mortgage brokers.

These amendments were intended to address concerns expressed by both the administration and the industry. Specifically the amendments: 1) limit the rescission remedy in exchange for other less severe enforcement measures; 2) reduce any burden to the administration of creating new forms; and 3) clarify language issues and technical errors.

## **Status**

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- Introduced 2/20/07
- Passed Assembly Judiciary Committee 5/8/07
- Passed Assembly Floor 6/7/07
- Passed Senate Banking, Finance and Insurance Committee 7/2/07

- Passed Senate Judiciary Committee 7/10/07
- Passed Senate Appropriations Committee 8/30/07
- Amended 6/10/08
- To be heard in Senate Banking Finance and Insurance Committee 6/18/08

## **Support**

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ACLU  
ACORN  
Advocates for Consumer Equity  
Asian Americans for Civil Rights and Equality  
Asset Policy Initiative of California  
Bay Area Immigrant Rights Coalition  
California Coalition for Civil Rights  
California Coalition for Rural Housing  
California Community Economic Development Association  
California Labor Federation (pending)  
California Reinvestment Coalition  
Center for Responsible Lending  
City of San Jose (pending)  
City and County of Sacramento Human Rights/Fair Housing Commission  
City of Oakland Community and Economic Development Agency  
Community Housing Development Corporation of North Richmond  
Community Legal Services in East Palo Alto  
Consumer Action  
Consumer Attorneys of California  
Council on Aging Silicon Valley Fair Lending Project  
East Los Angeles Community Union  
East Palo Alto Council of Tenants Education Fund  
Equal Justice Society  
Fair Housing Council of San Diego  
Fair Housing of Marin  
Fair Housing Law Project  
Fresno Interdenominational Refugee Ministries  
Housing and Economic Rights Advocates  
Housing Rights Center  
League of United Latin American Citizens  
Making Connections of Oakland

Mexican American Legal Defense and  
Educational Fund  
Mission Area Federal Credit Union  
Community Financial Assistance  
Mission Economic Development Agency  
Mortgage Broker Association for  
Responsible Lending  
Public Counsel Law Center  
Public Interest Law Firm, Law Foundation  
of Silicon Valley  
Santa Clara County Board of Supervisors  
Teamsters Union Local 601  
Vermont Slauson Economic Development  
Corporation  
Two private individuals

**Contact**

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